

# Service Delivery and Social Outcomes: A Story of Successes and Failures

## chapter 2

Latin America has a long history of economic, political, and social inequality that has had a potent influence both on the question of service delivery for the poor and on overall economic and social performance. The last two decades, though, have been a period of change for most countries in the region. There has been a dramatically different scene in country after country stemming from the overwhelming shift from authoritarian to constitutional rule, the movement to more decentralized governments, the rising activity by civil society actors outside the state, the growing role of NGOs (both for- and not-for-profit) in delivering a variety of services, and the increased activity of various LAC countries in the world economy.

During this period, coverage of key services (education, health, water and sanitation, electricity, and telecommunications) increased—often substantially—in most countries in the region. However, progress has been unequal between countries, regions, services, and social groups: large inequities in access to services remain a feature in most LAC countries. The improvements in social outcomes resulting from service coverage expansion have not been large and spread out enough to break with the resilient pattern of inequality that has characterized the region.

Often, recorded service delivery progress masks large inefficiencies and deep inadequacies in the service quality and relevance. The noted service coverage expansion was often achieved by relying on increased public spending from a very low base relative to the region's income level. Furthermore, the "service delivery reform" agenda that LAC countries face can be appropriately characterized as a moving target; as coverage gaps

in very basic services are closed, new services become a binding constraint for equitable development in the region (for example, secondary and tertiary education). In addition, more complex challenges, besides coverage, become apparent, the most important being the quality of the services offered. In summary, while there has been significant progress, there are enough signals suggesting that there is still room for substantial improvement; service delivery reform remains an open agenda.

### Progress in Basic Service Coverage

Primary and secondary education coverage increased significantly between 1980 and 2000 in the region. Considering the 20 largest countries, average primary enrollments of the relevant age group went from 81 to 92 percent, while the corresponding figures were 40 and 58 percent for secondary education. Most of the countries analyzed displayed primary education coverage rates close to or above 90 percent in 2000. Despite the noted increases, secondary education coverage remains below 70 percent in most countries in the region. In addition, coverage differences between countries are larger for secondary than for primary education. For example, the minimum secondary education coverage in the sample corresponds to Guatemala (26 percent), while the largest corresponds to Argentina (79 percent). This gap is almost three times larger than the corresponding one for primary education. Turning to international comparisons, only a couple of Latin American countries underperform (considering their income levels) in terms of primary education, while in the case of

secondary schooling, about half the countries in the region experience gaps relative to their income levels.

Figure 2.1 provides a summary view of the secondary education case. Three findings are immediately apparent: (i) the absolute coverage increases have been remarkable; (ii) most of the region still lags behind the middle income countries, and the gap remained almost unchanged throughout the period under study; and (iii) very few countries (Argentina and Chile) come close to the coverage levels of high-income countries, including that of the United States. Although the gap closed in the majority of the cases, this is due in part to the low relative starting level observed in the Latin American countries in the sample, relative to their income levels.

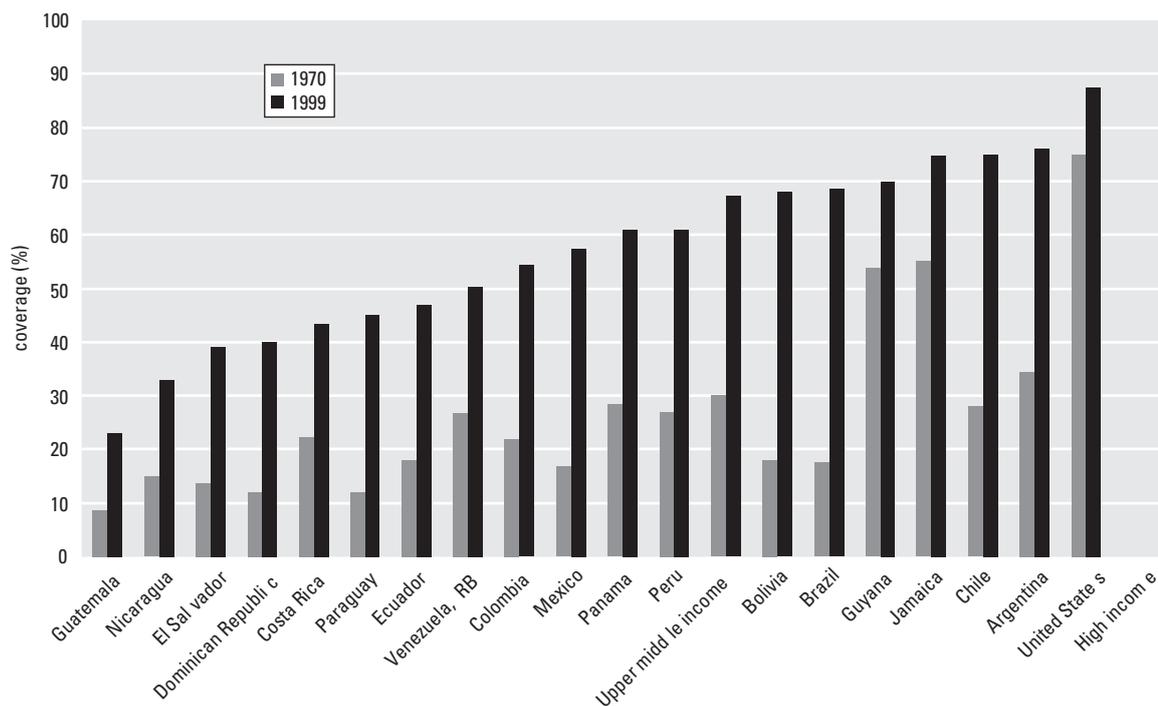
Coverage of health services also increased significantly during this period. For example, for the same group of countries the percentage of births attended by a trained professional increased by 10 percentage points and immunization rates for children up to one year of age by 16 points. By 1999, these countries displayed higher than expected—

for their income level—immunization rates and professionally attended births.

Figure 2.2 shows that there have also been significant increases in coverage for basic infrastructure services (water, sanitation, electricity, and, in some cases, telephone service). In the decade from 1986 to 1995, coverage in a sample of 12 countries increased from 76 to 82 percent for the water service, 67 to 80 percent for sanitation, and 82 to 89 percent for electricity, while telephone penetration doubled from 5 to 10 percent. However, the figure also shows that coverage is still unequal with large differences between households according to their income levels.

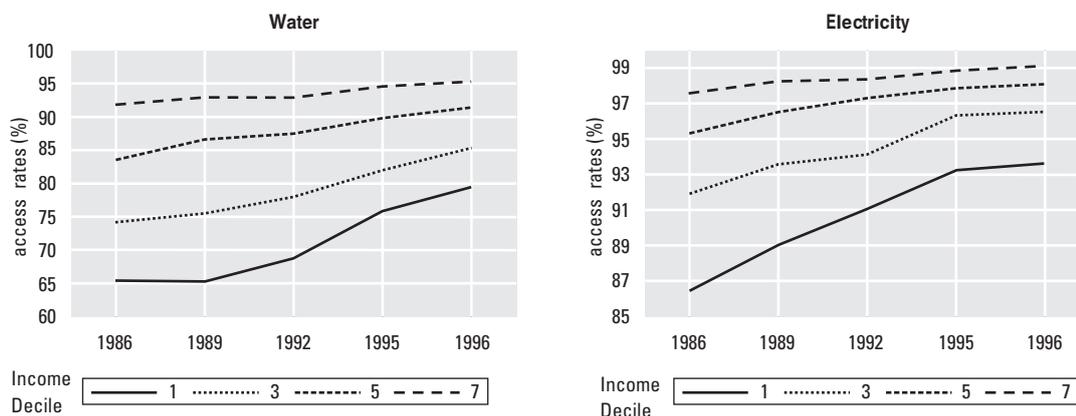
Importantly, coverage increases have frequently been larger for the population's most disadvantaged segments. This is particularly true for services where coverage rates were relatively high to start (see, for example, Foster 2003). Figures 2.2 and 2.3 show these results for water, electricity, and primary education. Despite this progress, about half the countries considered showed coverage rates below those predicted by their income level.

**Figure 2.1 Secondary Education Coverage for Various LAC Countries, 1970 and 1999**



Source: World Development Indicators (WDI).

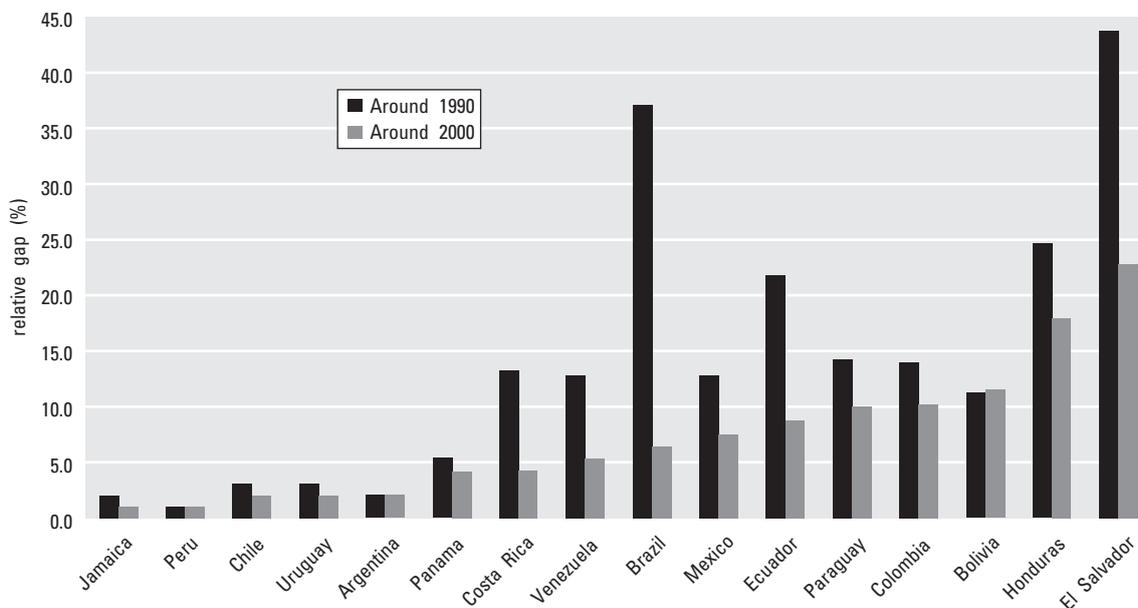
**Figure 2.2 Evolution of Water and Electricity Access in Selected Latin American Countries, by Income Decile, 1986–96**



Source: Foster 2003.

Note: The figure includes Argentina, Bolivia, Brazil, Chile, Colombia, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Uruguay, and Venezuela. The lines represent coverage rates for the different years included and for the income deciles shown in the lower part of the figure.

**Figure 2.3 School Enrollment for Children 6–12 Years Old: Relative Gaps between Income Groups**



Source: De Ferranti et al. 2004.

Note: The relative gap is defined as  $(E1-E0)/E0$ , where E1 and E0 are enrollment rates, respectively, for top and bottom income quintiles.

The many successes of LAC countries in expanding coverage of basic services over the last two decades have not always resulted in leveling the playing field among different groups in society; many coverage and quality gaps are reproduced for less basic services, which, increasingly, become binding constraints to equal opportunities. The most notable example is in higher education. As basic and secondary education gaps have diminished in many countries, higher education has become, per-

haps, the main differentiating factor among the region's social groups. In particular, the last decade has seen a sharp increase in the returns to higher education in the majority of the countries. This development is responsible for a high share of the region's recent rise in income inequality.<sup>1</sup> However, access to higher education continues to be highly restricted in most countries and associated directly with income status. Furthermore, access gaps between the rich and the poor appear to

have increased over the last decade in most countries (see figure 2.4).

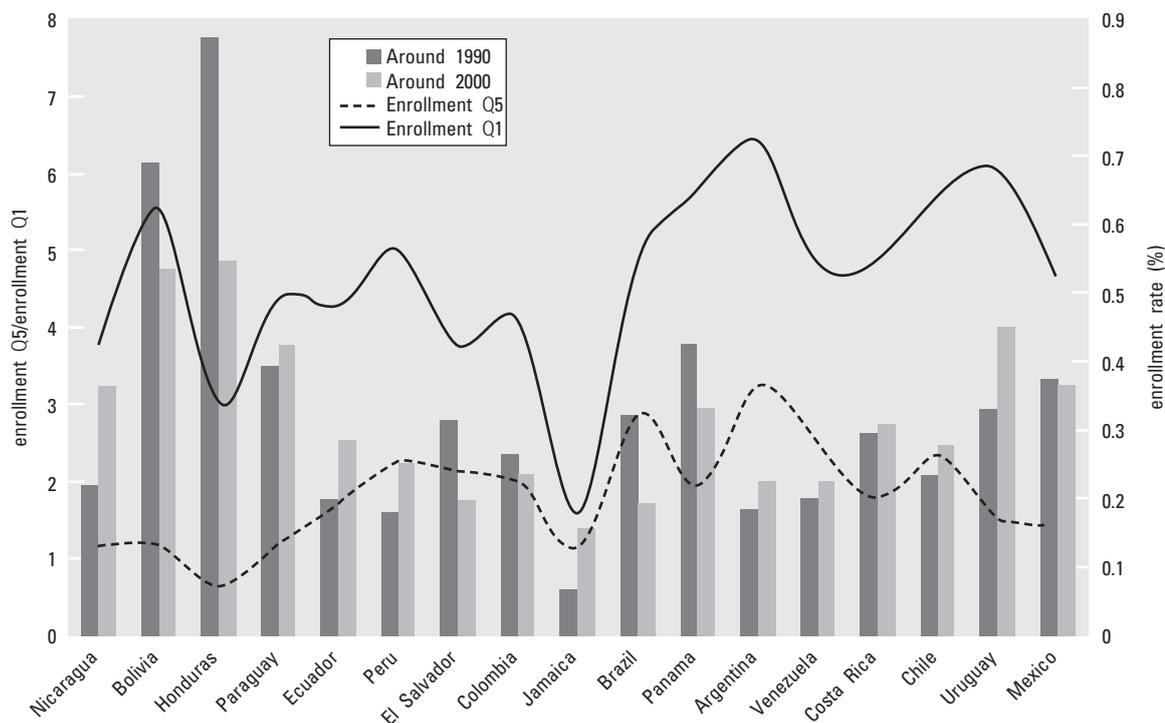
Another increasingly important gap can be seen in social protection mechanisms in the region. The traditional social insurance instruments that command the largest share of public budgets in many countries in the region have, by design, been associated with formal sector employment. As a result, the poor, who often lack formal employment, have tended to be excluded from the benefits of pensions, social health insurance, unemployment, and family allowance systems, among others. Today, the so-called “truncated welfare state” constitutes one of the key bottlenecks to inclusive development in the region (De Ferranti et al. 2004). While the 1990s saw an expansion in targeted social assistance programs, these remain small in size relative to the other programs, which appear to be particularly resilient (as in the case of higher education) to change.<sup>2</sup>

Beyond all the noted limitations and differences across countries and services, it is fair to say that LAC countries have made important efforts to expand coverage of key

services over the period considered. In many cases, such efforts were associated with changes in the way services are delivered. Chapter 3, below, analyzes those changes. But more generally, the service coverage expansion was typically associated with changes in the spending level and composition. For social services, this was largely achieved through a substantial increase in public resources, while for infrastructure services, public expenditure declined and the key mechanisms were private financing and improved cost recovery.

CEPAL (2001) estimates that the increase in total per capita social spending during the 1990s was about 50 percent, if pensions are included, and 30 percent, if they are not. Public education spending for the 20 largest countries in the region grew from 3.3 percent of GDP in 1975 to 4.2 percent in 1999. The increase in health expenditures is even more marked. Several countries have large public spending increases (above 50 percent) in these two services, including Argentina, Bolivia, Brazil, Chile, Colombia, Nicaragua, Paraguay, and Uruguay. In most

**Figure 2.4 Tertiary Education Enrollment Differences in Selected Countries**



Source: De Ferranti et al. 2004.

Note: The bars represent the enrollment ratio between the richest and poorest 20 percent of the income distribution for the age group 18–23. Countries are ordered according to the 2002 GNP per capita as published by the WDI (lowest to highest). The lines are the country enrollment rates for the top and bottom quintiles for the latest period (around 2000).

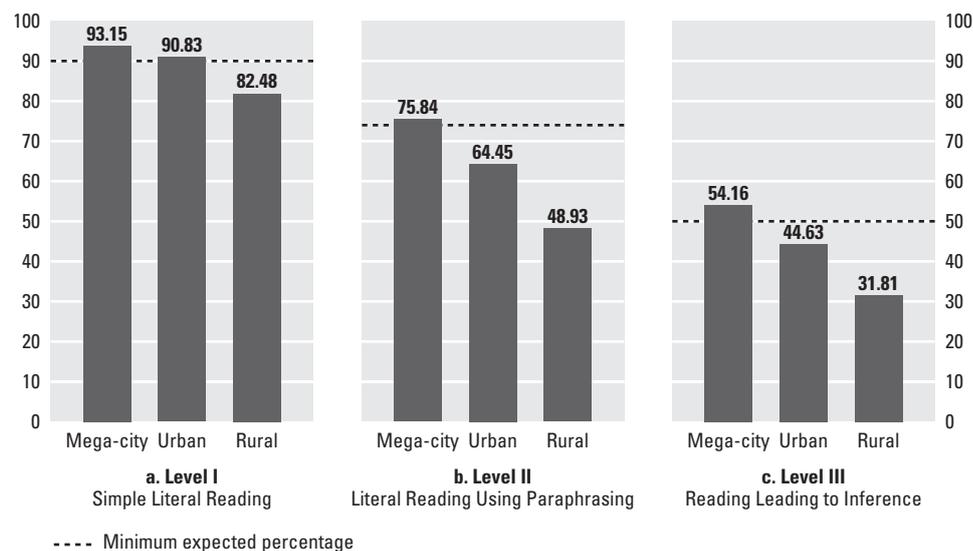
cases, the expanded coverage of social services was done fundamentally by increasing budgets (with little or no change in the financing of some large ticket items in government budgets that continue to benefit relatively well-off groups in society). This suggests the presence of large inefficiencies, which, in some cases, may question the sustainability of the overall efforts.

During the 1990s, public expenditures on infrastructure services fell from 1.2 percent of GDP to 0.6 percent of GDP. During the mid-1990s, this decline was more than offset by surging private investment. However, these tended to be concentrated in middle income countries and the telecommunications and energy sectors. Even at their peak, private capital flows covered barely half of estimated infrastructure investment needs and less than one-tenth of needs in the water and sanitation sector (Fay 2000). Moreover, the decline in private capital flows since 1997 has led to an overall reduction in the resources available to expand these services. This is a serious concern, particularly given that remaining coverage gaps tend to be concentrated in commercially unattractive rural and peri-urban areas, where it is unrealistic to expect that private initiative will solve the coverage problem without some degree of public subsidy.

## Service Quality

The evidence on quality is much less systematic than that on coverage, but there are clear signals that suggest both poor average quality of services and significant differences among social groups. In education services, for example, the few Latin American countries participating in international education assessments such as PISA (Program for International Student Assessment) and TIMSS (Trends in International Mathematics and Science Study) have shown average low scores (suggesting overall poor education quality) and, sometimes, high dispersion (suggesting unequal access to quality education). Recent PISA examination results indicate that in many LAC countries, education quality is lower than what would be expected given their income levels. The Latin American Laboratory (LAL) for Assessment of Quality in Education's First International Comparative Study of Education suggests that only a minority of students achieve satisfactory results (for example, read, recognize meanings, and understand and interpret information) in most countries in the region and those tend to be concentrated in the larger cities; towns and rural areas show a significantly worse performance. Figure 2.5 presents the reading results; similar results were obtained for mathematics.

**Figure 2.5 Percentage of Students Reaching Expected Levels, by Region and Language**



Source: Laboratorio Latinoamericano de Evaluación de la Calidad de la Educación (Latin American Laboratory for the Evaluation of Quality of Education).

The data from the Laboratorio Latinoamericano de Evaluación de la Calidad de la Educación (Latin American Laboratory for the Evaluation of Quality of Education) show that test results are strongly associated with a few school-related factors that can be seen as more direct quality measures: education level of teachers, instruction hours, teacher-student ratios, and degree of school autonomy/participation. Unfortunately, few countries collect such indicators systematically. However, there is evidence that Latin American countries tend to have yearly hours of instruction, which are below the Organisation for Economic Co-operation and Development (OECD) average. Given the high incidence of teacher absenteeism in many LAC countries, the gap in actual class hours is likely to be even larger. Similarly, LAC pupil-teacher ratios are above the OECD average.

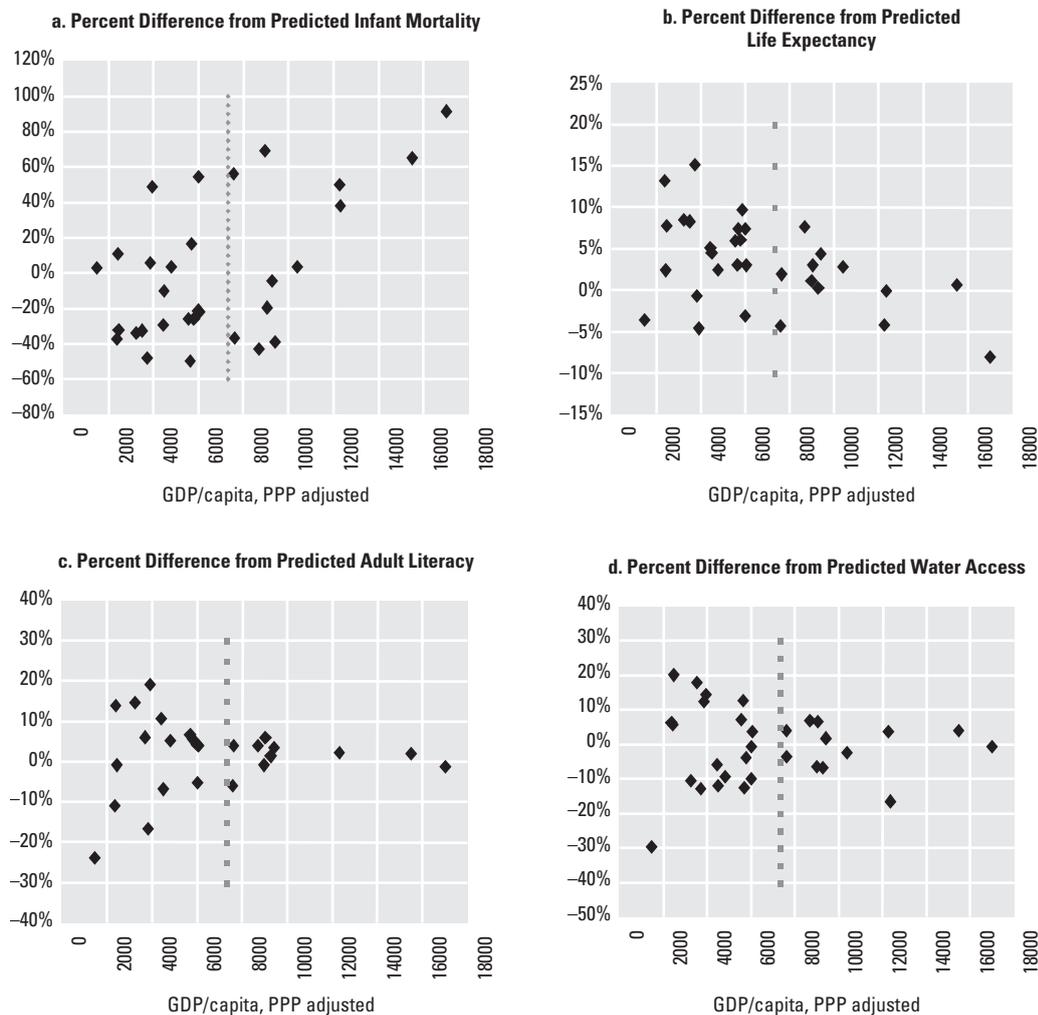
Of course, the poor quality problem is not unique to education. There is scattered evidence that quality is low in the provision of some infrastructure services in Latin America when compared to countries with similar development levels. For example, waiting time to get a telephone line or the number of faults in this service per unit of time in Latin America is more than double those observed in East Asia. Relatively high water coverage rates often hide serious inadequacies in both the potability and service continuity. Inequity in the quality of some infrastructure services, especially sewage and telephone service, also seems to be high (Estache, Foster, and Wodon 2002). There is anecdotal evidence that the health services that the poor receive are of much lower quality than those received by the population's better-off segments (see, for example, World Bank 2002b). This is especially true in regard to physician training and experience, the quality of the infrastructure where health services are offered, and waiting times to get appointments (DNP 2002, for the case of Colombia).

### Social Outcomes

The trend of pronounced improvements in access to basic services has contributed to significant progress in the evolution of key indicators of well-being and capabilities

(social outcomes), such as average educational attainment, literacy rates, life expectancies at birth, and child mortality rates.<sup>3</sup> For example, for the largest 20 countries, life expectancy increased from 59.7 to 70 years between 1970 and 2000, and most of the countries show greater than 15 percent growth in this category. In addition, the countries with the lowest initial level (Bolivia, Ecuador, El Salvador, Honduras, and Peru) show the highest increases, catching up with the regional average. By 2000, the dispersion in this indicator had declined. A very similar pattern emerges when analyzing infant mortality rates. All these countries increased their average educational attainment in a significant manner in the 1970–2000 period. It is also noteworthy that the countries that experienced the highest increases were the ones lagging in 1970. Thus, in 2000 there is less dispersion in educational and health outcomes in Latin America. However, relative to its income level, many Latin American countries are underperforming. In particular, the infant mortality levels and rates of access to safe water in many countries are below their expected levels; in some cases, the differences are quite large (see figure 2.6).

Unfortunately, the noted service coverage increases have not been sufficient to eliminate the very large inequalities observed in many key social indicators. For example, in Mexico, the average person in the bottom quintile of the income distribution has 3.5 years of schooling, compared with 11.6 years for a person in the top quintile. In Brazil, a child born to a household in the poorest 20 percent of the distribution is three times as likely to die before reaching the age of five as a child born into a household in the top fifth. In Bolivia, that ratio is greater than four, with children in the bottom fifth experiencing under-5 mortality rates as high as the South Asian average. A Guatemalan family whose income is in the bottom 20 percent of the distribution has a 57 percent chance of being connected to the water mains and a 49 percent probability of having access to electricity. The corresponding probabilities for a household in the top 20 percent of the distribution are 92 and 93 percent, respectively. Figure 2.7 por-

**Figure 2.6 Key Social Outcomes: Deviations from Expected Values Given Income**

Source: Hicks and Todd 2003.

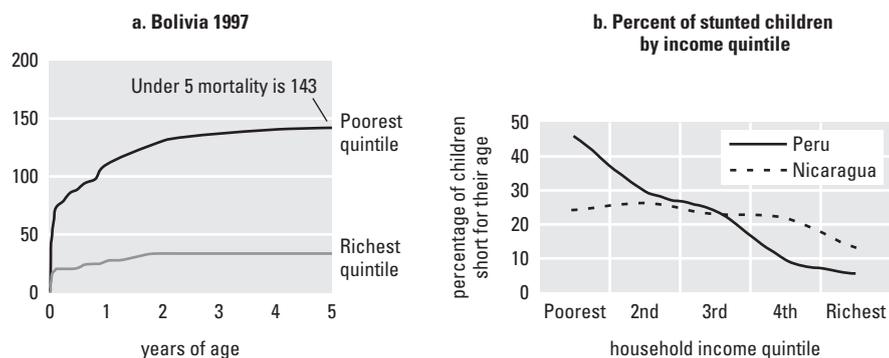
Note: PPP = purchasing power parity.

<sup>1</sup>The regressions include 32 LAC countries with data taken from the WDI. The vertical line denotes weighted average GDP/capita, PPP adjusted, year 2000. The worst results are found in (i) infant mortality: The Bahamas, Barbados, Brazil, and Mexico; (ii) life expectancy: The Bahamas, Brazil, Guyana, and St. Kitts; (iii) adult literacy: El Salvador, Haiti, Guatemala, and Nicaragua; and (iv) water access: Argentina, Belize, Haiti, and Jamaica.

trays some of the most important inequalities in outcomes quite clearly.

Such inequalities are particularly noteworthy between indigenous and nonindigenous people across Latin America (Hall and Patrinos, forthcoming). Indigenous people in Mexico are four times as likely to be illiterate than the nonindigenous. In Guatemala, the average indigenous adult has just 2.5 years of schooling, compared to 5.7 years of schooling among nonindigenous adults. In Bolivia, indigenous people have 5.9 years of schooling, but nonindigenous people have 9.6 years of schooling.

One in four indigenous Ecuadorians never attended school, compared to only one in 20 nonindigenous Ecuadorians. Compared to nonindigenous Ecuadorian children, indigenous Ecuadorian children are twice as likely to be chronically malnourished. In Mexico's predominantly indigenous municipalities, the infant mortality rate is 41 per 1,000, compared to 24 per 1,000 in predominantly nonindigenous municipalities. The child mortality rate for Ecuador's indigenous population is double the rate for the nonindigenous population (10.5 and 5.1 per 1,000, respectively).

**Figure 2.7 Inequality in Social Outcomes (Health): Bolivia, 1997, Peru and Nicaragua, 2000**

Source: De Ferranti et al. 2004.

Overall, the evidence reviewed is indicative of the growing importance that governments in the region have given to expanding social services. However, these trends raise many questions about challenges for the future. There are a number of countries that still show insufficient commitment of public resources to financing key services. But overall, further progress is unlikely to happen if governments keep relying only on increasing resources and if more effective delivery systems are not developed. This is the case particularly when fiscal constraints limit the capacity to respond by simply adding more resources. The same is true for services for which ensuring quality and relevance is essential and, thus, deeper changes may be needed in the type of service provided. It is in this context that we stress the importance of assessing how well today's service delivery systems are positioned to address the many remaining challenges facing LAC countries, particularly in terms of serving the poor. The next chapter will provide an assessment of the changes introduced in LAC service delivery systems over the last two decades.

## Notes

1. In fact, secondary education returns remained almost unchanged during the 1990s, while those for tertiary education were on the rise, implying that the skill premium grew importantly throughout the region. Santamaría (2003) finds that this increase in the wage gap between those with high education levels and the rest of the labor force explained most of the increase in overall income inequality in Colombia over the 1990s.
2. In 2000, CEPAL (2001) estimated that pension spending was around 5.3 percent of GDP as an average for the region and that it represented more than half of total social spending. When the region's 15 largest countries are considered, on average, only 7 percent of that expenditure benefits the poorest 40 percent of the population.
3. Of course, many other (macro, micro, and structural) factors have contributed to the observed progress in those outcomes. For example, child mortality reductions tend to be associated not only with health services, (for example, distribution of hydration tools to poor households), but also with improved parental education, increased coverage of water and sanitation services, higher incomes, and reduced fertility.